

ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

Wednesday 24 March 2004
(Morning)

Session 2

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2004.

Applications for reproduction should be made in writing to the Licensing Division,
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by The
Stationery Office Ltd.

Her Majesty's Stationery Office is independent of and separate from the company now
trading as The Stationery Office Ltd, which is responsible for printing and publishing
Scottish Parliamentary Corporate Body publications.

CONTENTS

Wednesday 24 March 2004

Col.

COMMON AGRICULTURAL POLICY REFORM INQUIRY	875
SUBORDINATE LEGISLATION	907
Pesticides (Maximum Residue Levels in Crops, Food and Feeding Stuffs) (Scotland) Amendment Regulations 2004 (SSI 2004/104).....	907
Pollution Prevention and Control (Scotland) Amendment Regulations 2004 (SSI 2004/110)	907
Potatoes Originating in Egypt (Scotland) Regulations 2004 (SSI 2004/111)	907
Countryside Premium Scheme (Scotland) Amendment Regulations 2004 (SSI 2004/113)	907

ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

9th Meeting 2004, Session 2

CONVENER

*Sarah Boyack (Edinburgh Central) (Lab)

DEPUTY CONVENER

*Eleanor Scott (Highlands and Islands) (Green)

COMMITTEE MEMBERS

*Roseanna Cunningham (Perth) (SNP)
*Rob Gibson (Highlands and Islands) (SNP)
*Karen Gillon (Clydesdale) (Lab)
*Alex Johnstone (North East Scotland) (Con)
*Maureen Macmillan (Highlands and Islands) (Lab)
*Mr Alasdair Morrison (Western Isles) (Lab)
*Nora Radcliffe (Gordon) (LD)

COMMITTEE SUBSTITUTES

Alex Fergusson (Galloway and Upper Nithsdale) (Con)
Janis Hughes (Glasgow Rutherglen) (Lab)
Jim Mather (Highlands and Islands) (SNP)
Jeremy Purvis (Tweeddale, Etrick and Lauderdale) (LD)
Mr Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

THE FOLLOWING GAVE EVIDENCE:

Jonathan Hall (Scottish Landowners Federation)
Adam Harrison (WWF Scotland)
Roddy Jackson (Scottish Estates Business Group)
Bob Stubbs (Highlands and Islands Enterprise)
Pip Tabor (Southern Uplands Partnership)
John Thomson (Scottish Natural Heritage)

CLERK TO THE COMMITTEE

Tracey Hawe

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Catherine Johnstone
Roz Wheeler

LOCATION

The Chamber

Scottish Parliament

Environment and Rural Development Committee

Wednesday 24 March 2004

(Morning)

[THE CONVENER opened the meeting at 10:03]

Common Agricultural Policy Reform Inquiry

The Convener (Sarah Boyack): I kick off the meeting by welcoming colleagues, witnesses, the press and members of the public. The first agenda item is the committee's second evidence-taking session in our inquiry into the implementation of common agricultural policy reform in Scotland.

I welcome Professor Mark Shucksmith, who is the committee's adviser for the inquiry. Members will have read the papers that we have received from Professor Shucksmith, but this is the first time that he has been able to be at a committee meeting for the inquiry.

We have tried to get a representative selection of witnesses for the first panel. Our time is limited and we have issued an open call for written evidence, which is coming through. I understand from the clerks that a batch of the evidence will come out shortly.

The key issues that we hope to explore in depth with today's witnesses are the likely effect of CAP reform decisions on environmental and other public objectives, including the implications of cross-compliance measures, which is an issue that has arisen in much of the paperwork. We will also explore the wider rural development objectives for individual businesses and rural communities. The panels this morning are crafted to let us explore those issues.

Before we move on to questions to the panel, I ask members to declare to the committee any relevant interests that they have.

Alex Johnstone (North East Scotland) (Con): I am a landowner and a member of the Scottish Landowners Federation.

Rob Gibson (Highlands and Islands) (SNP): I am a member of the Scottish Crofting Foundation.

Mr Alasdair Morrison (Western Isles) (Lab): Likewise, convener.

Eleanor Scott (Highlands and Islands) (Green): I am a member of WWF and Friends of the Earth.

The Convener: Thank you.

Our first three panellists are Bob Stubbs, who is a senior development manager for key industries at Highlands and Islands Enterprise; Roddy Jackson, who is an executive committee member of the Scottish estates business group; and Pip Tabor, who is project director of the Southern Uplands Partnership. I thank you all for sending us your written evidence in advance. Reading through it has been extremely helpful and I think that we all found it interesting. I invite members to ask questions arising from the papers.

Maureen Macmillan (Highlands and Islands) (Lab): I will cut to the chase. What do the reforms mean for rural development? How much should economic activity in rural areas be not just at the farm gate? Should the rural development funding that we hope will be available be used more widely in the rural community?

The Convener: Who would like to kick off?

Bob Stubbs (Highlands and Islands Enterprise): I will make a start. It is important that the modulation funds are used more widely than simply for measures that are directed at agriculture. The reforms to date indicate that the amount of money that is available is perhaps not as great as we might have hoped it would be, but at least the Executive has moved towards a relatively high level of national modulation. We would have liked the level to have been moved higher, but the implication is that it may well move in the not-too-distant future.

It is important that we move beyond the farm gate because, in areas such as the Highlands and Islands, we need to consider the wider rural community. Agriculture is important, but it is only a component of the community. In our area, agriculture generates around 10 per cent of gross domestic product, but in parts of the Highlands and Islands its importance is greater in respect of the employment that it creates—in the Western Isles, Orkney and Shetland, for example, perhaps 25 per cent to 30 per cent of employment is brought in through agriculture. However, we should not forget that there are other income streams. We should sustain farming family incomes and not simply the incomes of farmers per se, so it is important that income streams are broadened out beyond agriculture.

Maureen Macmillan: I have a supplementary question. Is there potential for such redevelopment and reconfiguration in all parts of the Highlands and Islands network? One of the submissions that we have received is from Westray. People think that, without their cattle farming, there is

absolutely nothing else that they can do and no other way in which they can generate an income, which seems very pessimistic. I wonder what your feeling is for places such as Shetland, Orkney and the Western Isles and whether there is life beyond agriculture.

Bob Stubbs: It is clear that there is, but in an agricultural context the options for alternative practices on farm holdings in such places are limited because of climate and soil conditions, for example. That does mean that other economic activities cannot be developed in those areas. The income that farming families gain from those activities is all part of the mix—it is part of the income streams that go into those holdings. The activity need not necessarily be an on-farm one, but simply economic development that is created to sustain those family farms. There are alternatives.

Roddy Jackson (Scottish Estates Business Group): I think that the SEBG would agree with that. Ensuring that the support goes towards farm-based activity is critical, but whether that activity is agriculture related is less important. Provided that the support goes towards farm-based activity, the wider objectives will be delivered, particularly if the support is for access improvements, for example, or heritage projects. If support is directed towards the farmer—the producer—it will deliver benefits. The support does not need to be agricultural per se, but it needs to go to the farmer, because he is best placed to deliver the benefits.

Maureen Macmillan: Are you saying that you would not necessarily envisage the support going to transport infrastructure, nursery schools or some other community good?

Roddy Jackson: The focus should not be as wide as that. It is important that the pillar 2 funds be directed towards farm-based activity and relate principally to environmental projects or access projects, for example. If a resident farmer who supports other jobs downstream loses out because funding is directed to other areas, the wider social effects could be damaging. Although the funding need not be directed towards agriculture, it is important that it is directed towards the farm.

Pip Tabor (Southern Uplands Partnership): I agree with Roddy Jackson and Bob Stubbs on those points. It is critical that money carries on getting through not only to where we can support agriculture, where that is appropriate, but to where we support the fabric of the countryside, because that is what will attract the other resources. Whether people come to visit, walk or recreate in other ways, we need to ensure that the fabric is maintained. If we lose the farming, we tend to lose the maintenance of the countryside, which is our other major advantage.

Bob Stubbs: I do not entirely subscribe to the view that the modulated fund should simply go to the farming community for farming activities. There is scope in the article 33 measures, for example, to consider the community and community support more widely, which we could take up but have chosen not to at this point. For example, the measures could apply to basic services for the rural economy and population. That is broad and sweeping and could cover a lot of activity.

The modulated money is perceived as being agricultural money. As the level of support relates to the farmer's income, that is clearly the case, although, to start with, it was general taxpayers' money that was allocated to an agricultural fund. The national modulated fund is genuinely additional money from taxpayers, so the impact of that money should arguably be spread more widely than just on the agricultural community. I hope that, in the fullness of time, those resources will be deployed slightly more widely and more creatively.

Rob Gibson: The European Union countries are tackling the development of the mid-term review in different ways. In Scotland, it has been only 10 years since tenants were unable to plant trees on their crofts or farms. We are looking at the potential for such activity to augment the other agricultural initiatives on crofts and farms, as would be normal in countries such as Norway and Sweden, where farmers have been able to diversify into timber and biomass products. We are talking about developing rural development funds. Would you envisage those funds extending farmers' and crofters' reach into timber and biomass? We note that, in the southern uplands, as in much of the mainland area of Highland Council, the Forestry Commission owns huge areas of forestry, but few local people benefit from that vast estate. Given the current review of forestry, the use of trees could be taken on board much more fully in the mid-term CAP review.

Pip Tabor: I agree. We have argued for some time for a much closer integration of farming and forestry. There is potential for adding value to the range of products and activities on farms, whether woodland, wildlife or access. If we can encourage farmers to consider other resources and to find ways of adding value to them, that must be a good thing. The key to sustainable rural communities is diversity and we need to find ways of making farm businesses as diverse as possible. We need to create a diverse landscape and a diverse range of incomes, which has to be a good thing.

Roddy Jackson: The SEBG favours diversification of any kind, provided that it is viable. Whether the project is tree planting or another initiative, it is important to ensure that it is viable. The proposal to increase the opportunities for

business development through modulated funds is the right approach, but we should not narrow it to one activity. The scheme should be reasonably broad, but based on viability.

10:15

Bob Stubbs: The question raised several issues. The opening comment about diverse application of CAP reform throughout Europe was important and interesting. We have four versions of the CAP in the UK alone. Another 10 or 15 versions might exist throughout Europe—who knows? The concept of a homogeneous CAP is disappearing rapidly.

The timber and biomass sector represents an important potential activity. HIE has worked through several approaches, one of which is with our community energy unit, to examine support for local communities that undertake biomass activities and small-scale heat and power activities.

Norway and other parts of Scandinavia have a long track record of farm management and forest management on the same holding, but that tradition needs to be more widely re-established in this country. We have a tradition of timber management on estates, but we have lost that ethos at the small farm level. It will take a little time to put that back in place. Long-term training and skills issues arise from that.

Rob Gibson: At our meeting last week, we talked about training people to use existing resources. You have highlighted again an important issue.

My final point is about the way in which co-operative enterprise might be developed. In the past, farmers have been individualistic. However, the potential for the kind of rural development activities that we have been talking about to reach a bigger market will be fulfilled only if people co-operate. What moves on that do your organisations expect to happen?

The Convener: That is relevant in the light of the First Minister's announcement this week that co-operative movements would be supported in Scotland. At our previous meeting, organic producers talked about milk co-operatives in the south of Scotland. We have heard about the issue before and we are keen to tease out how such co-operatives would work practically in rural areas. I am sorry for interrupting.

Pip Tabor: One or two good examples of co-operative working are developing in southern Scotland. One project involves a group of farmers who have established a new nature-based tourism initiative, which is exciting. In southern Scotland, a scheme has been on offer to support co-operative

approaches to developing nature-based tourism initiatives. It has been difficult for the scheme to find groups of farmers who are prepared to work together because, culturally, farmers do not find it easy to co-operate. They tend to be fairly single minded in their business approaches.

We find that we can help such groups to succeed by giving them plenty of time. They also need a lot of hand holding. If we can find a mechanism that offers groups of farmers support to develop such trust and to establish working patterns, they can do things. However, that takes time and outside support.

Roddy Jackson: The SEBG supports that. As agriculture moves towards being a more market-responsive industry, farmers may be forced to become more co-operative to gain advantages in the marketplace. However, as Pip Tabor said, some hand holding might be needed in that process. Perhaps other organisations could assist with that. Additional support would be welcome.

Bob Stubbs: In our area, co-operation in agriculture has proved over the years to be a good way of moving forwards. The crofting areas contain great examples of local co-operation, such as sheep stock clubs. Indeed, some of the recent trends in the food industry show that there has been a move back towards identifying local product in local areas and regional branding, for example. We need more of that kind of local activity to take advantage of that new potential.

We have recently carried out work into community-supported agriculture, which sounds like a generic term for local co-operation but in fact involves the community more deliberately in the decision-making process about what is grown on certain holdings. We are finding the suite of models that might be badged under the heading of community-supported agriculture to be an innovative way of securing co-operation between consumers and producers and of cutting through current supply-chain issues. We are hoping that, over the next year or two, we can develop some interesting initiatives in that respect.

The Convener: We are keen to hear more about practical examples of such initiatives that could be piloted or rolled out. Indeed, a question that has come up regularly is how the rural development plan might provide scope for such initiatives. It would be useful if you could give us more information about that in writing.

Bob Stubbs: I will do that.

Alex Johnstone: Previous evidence from economists and others suggests that the move to single farm payments—which I strongly support—is likely to reduce economic activity and employment in rural Scotland. However, the figures that we have been given indicate that the

decline will be much more marked in the Highlands and Islands than in the rest of Scotland. Could we use any existing mechanisms to change that trend and prop up agriculture-based industry and employment in the Highlands or do we need something additional to achieve that? Indeed, given Bob Stubbs's earlier comments, is it even desirable to prop up agricultural activity and employment in the Highlands?

Bob Stubbs: Our submission sets out a strong case for moving from single farm payments to area-based payments. The logic for that relates to a number of factors. First, as members will see, the submission shows that, if we compare the hectare level in the Western Isles with that in the Lothians, we find that the Western Isles receive £8 a hectare of support whereas the Lothians receive about £230 a hectare. Now that payments have been decoupled from production, the ability to produce is no longer the key issue. As a result, we should now judge the rate of payment not only on production, but on the environmental and social benefits and on the public good that comes from those three strands. With the move to an historic basis of payment, the disparity between support payments of £8 a hectare in the Western Isles and £233 a hectare in the Lothians—which is roughly 30 times the social and economic benefit—shows that, in the Lothians, greater benefits are being provided than in the Highlands and Islands.

Issues are beginning to arise with cross-compliance. Under good agricultural and environmental conditions, a raft of measures apply specifically to livestock production. If we have standard cross-compliance conditions across Scotland, the rate of assistance in each area is broadly comparable and that is not appropriate for our area. May I return to that point in a moment?

The Convener: Yes. This is making me think about cross-compliance issues and land management contracts, which is where we are going in the future. We must consider how the issue of negotiating at a local level is resolved, what the cross-compliance issues should be and what money will be available in that respect. We will perhaps come back to that point. Do other members of the panel want to come in on the issue of rural jobs and employment?

Pip Tabor: I will make one plea. Large areas of southern Scotland will be affected in the same way as the Highlands will be. Farmers in our upland areas are struggling. They are marginal and there is a danger that, under the changes, we will lose cattle, in particular, from some of the hills. That could have major impacts on landscape management and farm viability.

I am suggesting that modulation issues are important not only to the Highlands, but, to some

extent, to southern Scotland. We talked about the issues at a number of meetings in southern Scotland. The consensus was that there were opportunities to use modulated funds to keep cattle in key places in the uplands, where we could make a case for that from a landscape or habitat management point of view. We would like that to be made possible under modulated funds. The danger is that there will not be enough funds to allow it to happen, in which case we might lose cattle from the hills. That would have a significant impact.

Roddy Jackson: The key, from the SEBG's point of view, is to maintain economic activity. The Executive was right to take an historic basis approach, which would clearly direct the single farm payment towards farmers who have been responsible for the bulk of activity. The concern has been that, if payment is distributed evenly, the losers would be those who have been carrying on the majority of economic activities. Although an area-based system might be appropriate in the future, the immediate impact of such an approach would have been considerable on farmers and producers who have maintained the majority of the economic activity.

Bob Stubbs: On the other hand, the figures for 2003 show that the total support for agriculture in Scotland is of the order of £750 million per annum. The single farm payment will account for only £360 million or thereabouts, so roughly another £400 million will go to where the support has always gone—predominantly, the larger producers.

When we looked at figures in relation to the potential redistribution of money into our area, we were conscious of the fact that, although the Highlands and Islands accounts for about 50 per cent of the land area, about 47 or 48 per cent of the agricultural holdings and about 35 per cent of the activity, it currently receives only 15 to 16 per cent of what would be redistributed under the single farm payment.

Our argument was that we needed to shift more towards an area-based approach. The redistribution that we proposed was of the order of £90 million per annum. That represents a shift of just over 10 per cent, in the context of £746 million. We did not go along with the argument that that would be a massive redistribution of money into the Highlands and Islands. We felt that it was appropriate to move a reasonable proportion of the money into the area because, otherwise, the provision of environmental, social and other public goods—which is what we are really buying here—would not be rewarded effectively.

The Convener: Do you have a follow-up question, Alex? Are you happy?

Alex Johnstone: I am not happy, but never mind.

The Convener: Okay. We will not push that any further.

Nora Radcliffe (Gordon) (LD): The figures seem to show a great disparity in the support that is available in the Highlands and Islands. However, do you accept that, if you qualify the figures according to the proportion of the population affected, the disparities might not be so glaring, in that the money is going to where it supports more people?

The Convener: Would anyone like to kick off on that point?

Bob Stubbs: I will, because the question is certainly aimed at the Highlands and Islands. Our area contains around 10 per cent of the population of Scotland, so that is an issue. On the other hand, the single farm payment and agricultural support exist to support social and environmental infrastructure as well as production. The issue is about the imagery of the Highlands and Islands and how it is used to promote Scottish products. If it is decided to leave producers in the more remote and less favoured areas of the Highlands and Islands to their own devices, our fear is that, with the present level of support, we will start losing significant numbers of producers.

When Peter Cook, from whom the committee heard last week, did some work on the issue for us, all the options were open, which meant that the producers who were involved in the discussions had difficulties in giving clear evidence on what they were likely to do in certain circumstances. However, now that it is clear where the debate is going, people in the more remote parts of the Highlands and Islands will have to look pretty hard at the costs of what they will have to do to meet cross-compliance conditions compared to the income that they receive. I fear that people will decide that it is not worth continuing with present levels of production. As I said, the options to move into other activities are limited because of the location and its generally less favoured nature. That will be a difficulty for our area.

10:30

Nora Radcliffe: I agree with the general thrust of your argument, but I have a thing about the figures.

Is the best way of keeping cattle in the hill farms to use a national envelope or to have a more targeted use of modulation? People seem to be saying that we can achieve the aim more flexibly and in a more targeted way by not using the envelope. Do the witnesses agree? I see a line of people nodding.

Bob Stubbs: We argued for a national envelope because an adjustment of the existing rural development programme, which runs until 2006, at this point in time would make it difficult to find the right measures on which to attach support for keeping cattle. In the fullness of time, we would like the modulation fund through pillar 2 to be used, because it is potentially the most appropriate and flexible vehicle. Our view is that, in the interim, the national envelope, targeted so that assistance is focused on the disadvantaged and severely disadvantaged areas of Scotland, would best help to stem what appears to be a potential immediate decline in cattle numbers.

Roddy Jackson: We see an advantage in using the funds in pillar 2 because such assistance can be match funded, whereas assistance from the envelope would not be. We see an advantage in having a system that can be tailored to provide support to fragile areas, but match funding would provide better gains than the envelope would.

Nora Radcliffe: That leads me neatly on to my next question. Will you comment on the importance and implications of match funding from the Treasury?

Roddy Jackson: The benefit of pillar 2 is that match funding is available. The more funding that comes from pillar 2, the more Scotland will benefit.

Nora Radcliffe: Do you agree that one of the less tangible reasons why match funding is important is that it gives a higher degree of acceptance of how the total pot of money is used? People will be much happier for the funds to be used more flexibly than they would be if the situation was such that they felt that it was their money that was being taken away from them.

Roddy Jackson: In the long run, that must be right. Payments are provided for delivering tangible benefits. Those objectives must be right and we support them.

Nora Radcliffe: It has been widely accepted that the single farm payment should be made on a historical basis and that it should underpin in the short term the direction of money to rural areas. It is claimed that the advantage of the payment is stability, but is there a danger that people will use that stability to stand still and to postpone making decisions? If not, will they use the payment in the way that it is intended to be used, which is to buy time to plan change? How quickly should we move from historical payments to area-based payments or other ways of distributing the money?

Pip Tabor: There is a real danger that things will stay as they are until there is more of an incentive for change. During the foot-and-mouth outbreak, there was an opportunity for many farmers to think seriously about changing what they did. Farmers who lost stock could take compensation from the

compensation fund. There was a real opportunity for them to think seriously about doing something completely different. However, in southern Scotland, almost every single farmer returned to doing exactly what he was doing before the outbreak. I suspect that that danger is still present. Farmers know what they can do—they have done it for generations and they are reluctant to change. If we really want to see change in the rural parts of Scotland, we will have to take an approach that uses a carrot and a bit of a stick to encourage change.

I return to the point that I made earlier. If we are to encourage people to move into new areas with which they are not familiar, people will need to have their hands held. We will need to supply the support mechanisms to facilitate change.

Bob Stubbs: That is right. I made a comment along those lines in my submission. Historically, farming has always been resistant to change. There have been many shocks in the past 20 years or so, but the only area that is in decline is directly employed labour, which has been substituted by contracted-in labour. If we look at the figures, we see that very little has changed.

My perception is that it is likely that people will look quite hard at the comparison between the income from the single payment and the costs of keeping that payment coming in, by which I mean the cross-compliance costs. We have not done the figures on this yet, but if a hectare in the Western Isles receives £8, but it transpires that it would cost £10 a hectare to comply with good environmental and agricultural conditions, farmers will be clear that it is not worth while to carry on doing what they have done in the past. However, the £10 figure might be okay for a farmer in another part of Scotland who is in receipt of £230, because they would continue to make a reasonable return.

Farmers will look quite closely at the payment and I would expect their reaction to be more immediate, by which I mean that it will be within a period of two to three years rather than within the five-to-10-year period that might have been expected.

There is another point that we were conscious of when we were making the case for an area-based payment. My understanding of the EU regulation is that unless a percentage—even a very small percentage—of an area-based payment has been introduced by now, it will not be possible for such a payment to be introduced until after 2013. Even if the discussion is reviewed and the suggestion is made that we move to an area-based payment scheme, I am not convinced that it will be possible to implement such a scheme until some time down the road.

The Convener: Almost every panel member to whom we have spoken thus far has raised the issue of the next two years. Witnesses have said that what happens over the next two years will depend on the information, training and support that are available to allow people to think about opportunities and about how change will take place.

Eleanor Scott: I want to raise an issue that has been touched on a bit, which is the land management contract. It seems that we are going to ask land management contracts to deliver quite a lot. What are the opportunities and threats of the contracts? What do we need to put in place to make them work?

Roddy Jackson: The key aspect is funding, which obviously returns us to the issue of modulation. Increased support for pillar 2 could go towards targeted benefits. Demonstrable benefits would be seen, particularly with the availability of match funding. In the long run, that must be the way in which we go. We would support such an approach.

Bob Stubbs: Land management contracts are widely perceived as being a good way forward. The Executive should be congratulated on managing to move the debate forward as well as it has. As we have just heard, funding is an important aspect of that and it seems that the top two tiers of LMC are being devised to be broad and general, so that they are accessible to a range of people, which is good.

The more targeted selective funding is currently administered on a competitive basis and, as I have said, we take up only about three of the 26 or so measures in the article 33 programme. Ideally, we would introduce more of them, which would mean that more money would have to go in to fund those activities—they might be maintained on a competitive basis, but more funding would definitely be needed.

Finally, LMCs are designed specifically to target the farmer. Some measures that are delivered through pillar 2 funding are broader and more general than that; they are not farmer specific. Those include assistance for marketing and processing activities to assist food companies to use local products and more general marketing assistance for health schemes and quality assurance measures. Such activities are not necessarily specific to individuals. They are still good things to do, but they do not necessarily lend themselves to an LMC solution.

Pip Tabor: As my colleagues have said, the key issue in relation to land management contracts will be funding. Ideally, the funding should be such that anyone who wants to get into a management contract can do so, at least in tiers 1 and 2. We

would like there to be a significant local flavour to the contracts, so that they are not prescribed nationally and so that local groups and communities can decide for themselves what the priorities are for local delivery, which would encourage farmers to deliver local public benefits. We should move away from the competitive basis as much as we can so that people can do the rights things if they want to. Flexibility is important—the contracts should not be too prescriptive or rigid. There should be a menu from which the farmer can choose the things that suit him best.

Eleanor Scott: Do you envisage a move over time from pillar 1 to pillar 2 funding, with funding being shifted from one pot to the other?

Bob Stubbs: Yes. It is important that we make significant moves to do that deliberately. At the moment, pillar 2 funding is unconstrained in terms of the requirements of financial discipline. In the long term, it will be the place in which to put rural development money and agricultural support money.

Roddy Jackson: With support going to pillar 2, benefits will be delivered, which will give us an advantage over tier 1, which is less clearly defined.

The Convener: We have covered a lot of ground. I thank all three witnesses for being prepared to answer a pretty wide range of questions. We will have a quick two-minute break while we invite in the second team.

10:43

Meeting suspended.

10:45

On resuming—

The Convener: That is probably the quickest two-minute changeover that I have ever seen. It was actually within two minutes.

On our second panel are: Jonathan Hall, the rural policy adviser of the Scottish Landowners Federation; John Thomson, the director of Scottish Natural Heritage; and Adam Harrison, the rural development officer of WWF Scotland.

Thanks for giving us submissions in advance. It is extremely useful to have an understanding of your views before we formulate our questions.

Alex Johnstone: It is becoming increasingly obvious that, as time goes by, measures under pillar 2, through the rural development regulation, will become more and more important as measures taken under pillar 1 become less important to rural Scotland. At the moment, pillar 2

measures are largely targeted on environmental issues. However, many people believe that it is necessary to include economic and social measures in pillar 2 as well. What do you think about the importance of balancing those priorities within pillar 2 funding? Is it necessary to make radical changes to the balance that we have today?

Adam Harrison (WWF Scotland): I was interested to read some of the evidence that you have heard on that issue at previous sessions. The figures show that around two thirds of the money is going to LFA support. Last year, an evaluation exercise concluded that there was not much indication of the environmental benefits that that brought. Only about 24 per cent of the money targets agri-environment schemes. Therefore, I believe that the perception that pillar 2 measures are already balanced in favour of the environment is not quite correct. I think that it is quite correct that there should be a balance, but I think that the overriding principle should be that public money should buy public benefit, as many people have said. Further, the environmental, social and economic benefits that individual schemes ought to deliver should be public benefits rather than benefits to individual businesses.

Jonathan Hall (Scottish Landowners Federation): I want to echo a lot of what Adam Harrison has said. It is vital to achieve a balance between the economic, environmental and social strands. It is within our gift to develop a rural development programme that does that in a single measure. Obviously, that leads to the old chestnut of rolling out land management contracts, which would allow individual farm businesses—which inevitably are what we will support through the rural development programme, although not necessarily their agricultural activity—to take a flexible approach to land management contracts that will enable them to meet their objectives while delivering the public benefit that is being paid for through public funds.

I do not believe that it is beyond the wit of the Scottish Executive, the Scottish Parliament and the land managers to do something in that regard. The Rural Development Committee had an inquiry into integrated rural development two years ago. For far too long, the schemes under the rural development regulation and the current Scottish rural development plan have focused too much on achieving either environmental objectives or economic or social objectives. We have to deconstruct that and ensure that our schemes deliver environmental and social objectives, economic and social objectives, economic and environmental objectives and so on.

Only if we allow a flexible system to take shape will we begin fully to achieve integrated rural

development and, possibly, the holy grail of integrated land use. That throws open the question of why we must deliver rural development exclusively through agricultural holdings rather than through forestry and other land use interests as well.

John Thomson (Scottish Natural Heritage): I strongly endorse what the other two witnesses have said. Building on Jonathan Hall's final point, I think that the issue is that we must recognise not simply the need to integrate the different interests in the future, but the fact that they are already integrated to a significant degree in a way that the programmes perhaps do not recognise. By that, I mean that the quality of the environment in rural areas must be seen as very much part of the economic infrastructure. Increasingly, rural areas' product is their attractiveness, which is dependent on the quality of their environment. Therefore, investing in environmental management benefits not only an area's environment but its economic base. It is important that we understand that.

The danger is that the environment will be seen as being in conflict with other objectives—that there is a tension between them. I do not deny that that can happen on occasions, but the great majority of the time the different objectives are complementary. In thinking about integrated rural development, we need to recognise that investment in the maintenance of the environmental asset is a key component of the overall package.

Although we are discussing CAP reform, the forthcoming major overhaul of structural funds should also be played into the debate. The future of structural funds is currently much less clear. There is a possibility that rural Scotland could be left almost without structural funds. However, there is also a counter-argument that the structural funds should give special treatment to peripheral and otherwise disadvantaged areas, such as mountainous and island areas. A structural funds programme with that sort of emphasis could perhaps be aligned with the rural development programme to provide a programme that could sensibly integrate the various objectives.

Linked to that is my final point, about land management contracts. Although land management contracts have been seen purely as a mechanism for delivering the pillar 2 rural development programme—obviously, that is the context in which they were conceived—I see no reason in principle why they could not be used as a vehicle for delivering to the individual farmer or landholder a stream of different funding, including funding that does not come under the rural development plan. If someone proposes activities to develop their business that are eligible for structural or other funds, why not wrap all of that

up in the land management contract? The land management contract would then be a one-stop shop that would specify what the person had to deliver against a much wider range of objectives.

Jonathan Hall: I put on record my support for that.

Alex Johnstone: I want to clarify some of those issues. I assume that, as time goes by, money that is currently targeted at direct farm support payments under pillar 1 will ultimately find its way into pillar 2 funding, which could be distributed in similar geographic areas. How likely is it that businesses that currently claim direct farm support will have the opportunity to claim support for fulfilling what are in effect similar, although different, functions?

Adam Harrison: As I pointed out earlier, the principle is that the money should be distributed to those who have the greatest need for it and to those who have the greatest opportunity to deliver the public benefits that we want from it. It is not for me to say whether estate X or farm Y should get the money in future. That will have to be determined according to the plans in the land management contracts for what will be done with the money and using a mechanism that should be sufficiently flexible and regionally sensitive to identify the priorities for investment. It would be great if the funds were available to everyone, but unless a benefit can be delivered with the money, we should not view that as the highest priority.

Jonathan Hall: I tend to agree with Adam Harrison on that. As we move from pillar 1 to pillar 2 funding and measures, the distribution of funds should be outcome led. We should not simply hark back to the production system of an increasingly bygone era when single farm payments were based on an historic reference period. The justification for the amount of public money that will go into the rural sector will have to be based on the delivery of public benefit. The distribution of public funds must be concentrated on those who are best placed to realise a public benefit. It is important that we get the right balance, using whatever delivery mechanism we have, so that public benefits include the creation of employment and business opportunity in rural areas, as much as environmental delivery, community involvement and access provision.

We must have clear objectives about what the resources are for, how they are best spent and how we ensure that people have access to funding if they wish to pursue particular objectives. That comes back to the funding issue that the committee raised with the previous panel of witnesses. In my opinion, we must be prepared to put in resources if we want particular activities to remain as constants in the rural fabric of Scotland. That is an issue not just for the Scottish Executive

and the Scottish Parliament but for the United Kingdom Treasury, with match funding on modulation commitments not just until 2007, but until 2012. The political process in relation to that needs to be developed.

Alex Johnstone: I assume that you view pillar 2 funding as a tool to enforce public policy on rural businesses.

Jonathan Hall: I would not use the word "enforce".

Alex Johnstone: Persuade, perhaps.

Jonathan Hall: "Persuade" means to provide incentives, and agricultural or rural support has been based largely on incentive plus a degree of regulation since the time of the corn laws. In that sense, nothing will really change, but we need to allow each individual business to take its own path, either purely in response to market signals or in delivering other outputs from agriculturally based or farm-based activity.

John Thomson: I support that view. We face a real challenge in relation to the next generation of farmers and land managers. Fortuitously, the situation is in some ways advantageous, in that we know that the current farming community is predominantly elderly. Therefore, the time is not far off before there is a change of generation on an awful lot of holdings. That is a happy circumstance, because the new generation that is coming in will be able to think much more about how it wants to reorient its activities. To pick up on a point that was made earlier, I believe that the new generation will want to develop a new set of skills that are required to operate in the new environment and will want to develop new business models, which will no doubt vary considerably among individuals and in different parts of the country. That is the challenge.

The regional dimension has been touched on. It is important that measures are developed in a regionally targeted way. It is also important that there is a proper debate at regional and local levels that goes beyond the farming community and those who traditionally have dealt with it. Other sectors must be brought in, because the diversification of farm businesses will inevitably mean forging wider links with other parts of the local economy. We need to encourage such debate, whether through the community planning process or via other means. It is most important that the debate is not just left to land managers.

11:00

Rob Gibson: My first point is on the section of the SLF submission on modulation, the second paragraph of which refers to the fact that four fifths of the money that is raised in Scotland will be returned to and spent in Scotland. It continues:

"That said, the SLF would ideally wish to see flat-rate modulation applied across all recipients of a Single Farm Payment devoid of any franchises, with all modulated monies returned to Scotland via accessible LMCs available to rural land managers."

What do you mean by "devoid of any franchises"?

Jonathan Hall: That paragraph refers to compulsory EU modulation, which is in the CAP reform package; it does not relate to the additional national modulation, which is in the gift of individual member states. Currently, we have a €5,000 threshold, or franchise, which means that the first €5,000 of direct support and the single farm payment is exempt from modulation. Before, there was a raft of franchises. It started with the €5,000 threshold, then there was a degree of modulation for the next €50,000 and then there was a different degree of modulation over and above the €50,000. That all went in the political process of last summer, but the €5,000 threshold or franchise still exists. We believe that a simple flat rate is the easiest to comprehend and to administer. We see no sense in retaining different rates.

Rob Gibson: Basically you are saying that crofters with a small income should not have the special franchise.

Jonathan Hall: It is pro rata. Modulation is a percentage, so it will be no different whether your single farm payment is €3,000 or €30,000 or €300,000. You will still be penalised on a percentage basis.

Rob Gibson: Okay, I will follow that up later.

I turn to the recommendations in "Custodians of Change", which are touched on near the end of the WWF Scotland submission. The submission refers to the standards that will be maintained for the various payments and states that the Executive could

"take the opportunity to voluntarily create a comprehensive code of practice and cross-compliance as recommended by the Custodians of Change".

What does the panel think about that and the debate on the development of pillar 2?

Adam Harrison: One of our concerns about the cross-compliance and good agricultural condition issues that have been agreed in the reform package from Brussels is that, environmentally, they cover only five bits of European legislation, which is fewer than are already on the statute book in the UK and Scotland. It is also less than is already included in some of the elements of cross-compliance that are applied to rural development payments, such as good farming practice and good environmental condition. We are concerned that a two-tier system is arising, under which all the law will apply, but only some of it will carry the stick of being able to withdraw money. We are

also concerned that particular bits of legislation—I am thinking of the water framework directive, which Scotland is the first country in the European Union to implement—are not included in the list, which seems to be a fundamental gap.

I understand that our system has come from Brussels and that we cannot add to it now, but we had the opportunity under existing, more flexible regulations and directives to include other legislation if we had wanted to, just as we had had the opportunity to have 20 per cent voluntary modulation if we had wanted it. We have the opportunity to consider what we need to do in Scotland and, if we are trading on the health and pristine quality of our environment, we ought to put our money where our mouth is, invest in that and ensure that the environment is preserved.

Rob Gibson: Do others in the panel have a view on that?

John Thomson: I agree broadly with Adam Harrison. In a way, there is something slightly odd about making payments conditional on people meeting the requirements of the law in the first place. If that is the law, we should be meeting its requirements, come what may. The cross-compliance measures that are in place are only a starting point, as indeed are many of the other measures that have been adopted.

It is appropriate that farmers and other land managers should be rewarded for good environmental stewardship, but in return for payment we should be looking for something more than simple observance of the law. Over time, we in Scotland are going to have to work out exactly what that means.

Rob Gibson: There is a consultation on cross-compliance at the moment, and surely we have to spell out some of those things right at the start so that farmers and crofters can start to adjust their thinking. We have heard that considerable retraining and rethinking is going to be needed during this time. Do you think that clearer indications are absolutely necessary?

John Thomson: I agree. If there is one aspect of the decision that has been made in Scotland that I regret, it is that it appears quite static—there is no built-in dynamism. I know that some dynamism has been added by what the minister and staff from the Scottish Executive Environment and Rural Affairs Department have said but, nonetheless, whatever the deficiencies of the scheme or of the implementation of the reform that has been announced in England, that system is a good one because it clearly charts a way forward for the medium term. What has been announced in Scotland does not do that to the same extent. It is important that ministers and others continue to signal that we are at the start of a continuing

process and that they give an indication of what the process is and where it is taking us so that farmers can start to adjust their thinking and planning accordingly.

It is quite right that we should be thinking in transitional terms. For example, it would have been catastrophic if we had moved to a universal area-based payment system, and a uniform area-based payment system in Scotland could not be justified, given the variety of conditions. We could, however, justify some type of regionally differentiated area-based payment system. I would have liked that to have been part of the package that was announced—that that is the destination towards which ministers hope we will move over time.

Jonathan Hall: I endorse John Thomson's latter comments. It was certainly in the gift of the Scottish Executive to consider the two extremes: the individual historical entitlement option, which was chosen; and the very pure option of a flat rate across Scotland, which the Executive proposed in the consultation document. Between those extremes was a host of options that could have been taken up to develop a hybrid to mitigate a lot of the immediate redistribution impacts of moving to an area-based system. We could have worked out a regional basis for payment and ring-fenced money in particular areas. Some of the immediate impact of sudden decoupling on a flat-rate basis could therefore have been ironed out. I have heard it said that there was an economy of effort on the part of the Scottish Executive in considering such matters.

Adam Harrison: For me, that harks back to the point that was raised during the discussion with the first panel, which was that, in the future, the legitimate and sustainable way of supporting the sector will be through pillar 2, not pillar 1. The use of a flat rate as opposed to a historic basis for payments has pros and cons. Hybrids are problematic, because of the bureaucracy involved. Environmental groups were disappointed that there was not sufficient political will to push things forward to where the ultimate end game is—in other words, to put more money into the second pillar. If we know where we are going, it would be nice to get there a bit faster.

The Convener: We can put those comments to the minister when he appears before us after the Easter recess—he will be the final witness in our CAP reform inquiry. We are collecting questions.

Nora Radcliffe: There are three points that I want to clarify from the submissions that we have received. I will start with Mr Thomson. Under "Rural development and modulation", you said:

"We support modulation as a mechanism (though an unnecessarily complicated one)".

Was that a reference to the different levels of modulation, which we have just had explained to us, or did you have another mechanism in mind?

John Thomson: It would be much simpler just to shift money from pillar 1 to pillar 2 without calling it modulation—in effect, a top slice off the pillar 1 money. That is what we had in mind. The belief that the future lies in a broader-based support package along the lines of the rural development plan and that one budget ought to be progressively cut and the other progressively expanded ought to be expressed much more clearly. The idea was not much more complicated than that.

Nora Radcliffe: I just wanted to clarify what you meant.

The section in the SLF's submission on forestry mentions the Scottish forestry strategy and the Scottish forestry grants scheme and says that there should be more support and more resources for woodland expansion and so on. Are you saying that the schemes are all right and that it is just the level of resources that needs to be addressed?

Jonathan Hall: That is absolutely right. The Scottish forestry grants scheme, which replaced the woodland grant scheme, has been up and running only since last June. I congratulate the Executive and the Forestry Commission on working hard to put together a funding support mechanism that is more appropriate to meeting the objectives of the Scottish forestry strategy but, as the witnesses on the first panel stated clearly, the issue is about resources. Although we moved to the new Scottish forestry grants scheme last year, the resources that are dedicated to such environmental and social delivery remain static. The issue of resources must be raised again.

Nora Radcliffe: So the mechanisms are fine—it is just the funding for them that needs to be addressed.

The SLF submission also says:

"In addition, the SLF believes that any funds derived from national modulation must not be used by the UK as part of its co-financing commitment to lever EU resources into rural development measures, albeit that they will now be on a 40:60 (UK:EU) footing."

Will you expand on that sentence a little, to ensure that I understand it?

Jonathan Hall: Basically, an awful lot of European Union funding goes into schemes such as the less favoured area support scheme. To provide the £61 million that is being spent on the Scottish LFA support scheme, the European funding has to be met pound for pound by the UK Treasury, so the basis of the funding is 50:50. The fact that the funding ratio will change to 40:60 in the future is good from the member state's point of

view, because we will get more from Europe's central resources. The purpose of our comment was to note that we must guard against the use of the modulation to which the UK has committed as its pay-out—its so-called match funding on the modulation element. We think that that should be kept separate. The modulation resources should be matched pound for pound and any commitment to match funding or co-financing of European commitments should come from the Treasury, too; the Treasury should not simply say, "We'll pay our bit by going into that particular budget." That would dilute the total pot of money coming into the Scottish agriculture and Scottish rural development package.

Nora Radcliffe: It is difficult to get one's head around all the funding streams.

Jonathan Hall: It is complicated for all of us.

11:15

Nora Radcliffe: I have some specific questions and a more general one. First, what do you think the degree of flexibility should be in the use to which we put pillar 2 funds? Do you see that use encompassing such things as infrastructure measures, transport, roads and rural services? Where should the line in the sand be drawn between funds going to individual land managers and funds going to wider rural support?

Secondly, somebody on the previous panel talked about the degree of hand holding that would be required to enable people to get from where we are to where we think we want to be. Are the current mechanisms for offering business advice and support and for training and reskilling adequate?

Finally, it is implicit in a lot of what has been said that the Scottish Executive should have a clearer destination if it wants to create dynamism and encourage people to undertake the changes that we want. How could that be done?

Jonathan Hall: I shall kick off with your final point about the destination and the dynamism. I think that there is a vision: the agriculture strategy that was produced by the Scottish Executive three years ago, which I think still stands up. It can be redefined to a degree or set in a new context, which is what we are moving into, but by and large it squares up quite well with the world of decoupling and the increasing expectations that are currently being placed on the farming industry not only in delivering products for the food chain but in the environmental and social delivery that goes with that. The dynamism is there and we should look to that strategy and perhaps redefine it for the new context, embracing all stakeholders in that process so that everybody has an opportunity to comment.

I return to what you said about where we draw the line in the sand for the rural development regulation. It is difficult to draw a single line, but in the process of change that will inevitably occur as we move to a decoupled world, I make a plea for us not to throw the baby out with the bathwater. Agricultural or farm-based businesses seem to me to be the best vehicles to deliver most of the objectives of the rural development regulation and the rural development package that Scotland currently has in place and which we will have to redefine and set again for 2006.

I believe that the vast majority of the funding that goes through the rural development regulation and through pillar 2 should still be delivered via land-based businesses. As was made clear by witnesses on the first panel, such activity does not necessarily have to pertain to agricultural activity and farming per se, but land-based activity is crucial to underpinning all sorts of other dimensions of rural life, rural infrastructure and rural communities. Despite the warts-and-all nature of the current CAP system, people actually have to do something to receive their support payments today—they have to keep sheep or cattle, buy feed and employ people. There is therefore a multiplier effect in terms of employment and income streams in local communities, especially in certain parts of Scotland where there are few alternative options for income generation, as we have heard.

We have all heard about the perceived dangers of reductions in production in the beef herd. There is a danger that, if we move very quickly in the direction of a decoupled world, the rug will be pulled away from the very vehicle that allows rural development to persist and roll forward. I would therefore make a strong case that the rural development package itself must be allowed to assist those agricultural land-based businesses to adjust, which would fuel rural development further down stream.

Adam Harrison: I echo some of what Jonathan Hall said. I believe that there is a vast amount of flexibility in the existing regulation. As we heard earlier, we are using only three out of the 26 existing measures, most of which are directed at land management and at agriculture in particular. However, we are not putting enough money into that limited set of three schemes. To spread that money more thinly would be to go down a dangerous avenue, but if the argument is, as I think that it should be, that we could and should do many things in relation to rural development and that we need more money and more measures, we whole-heartedly support that.

As I said, the money should be used to buy extra, public benefits and not necessarily to buy things that freedom to farm should now be

delivering through the market. An aspect of the reforms that was universally welcomed was the decoupling and that freedom to farm, but that means that the CAP should now be a public policy and it should be about delivering public benefits. We must use those criteria when we decide where we draw the line.

John Thomson: I agree. Certainly for the foreseeable future, pillar 2 ought to continue to be a land-management-focused programme that allows for considerable diversification from existing land-management activities, because the land is obviously a distinctive asset of rural communities—I will not get into the debate about exactly who has access to that important resource.

One matter that I do not think is being adequately reflected in the debate about the future of those farms—that is obviously the fault of the EU and not of the UK Government or the Scottish Executive—is the need to think clearly about how much support is needed for on-going activity and for investment to improve infrastructure. In many ways, a better model for the distinction between pillar 1 and pillar 2 is that pillar 1 is about on-going activity and pillar 2 is about capital investment. Let me go back to my point about rural infrastructure and the role of land and the environment as an economic asset. That asset requires on-going activity and management for the foreseeable future. There are obviously jobs in that, albeit jobs that are slightly different from traditional land-management jobs.

There is a need to invest in new businesses, in business diversification and indeed, in some cases, in new environmental assets, rather than simply in the maintenance of existing environmental assets. Those would be one-off investments that would enhance the infrastructure. We could regard them as a rolling programme that would be rather different in nature from the on-going revenue stream in relation to land management. That issue needs to be taken into account in the debate about the future of not just the rural development programme itself but the whole of the CAP and the relevant parts of the structural funds.

Roseanna Cunningham (Perth) (SNP): The witnesses have begun to cover some of the areas that I wanted to ask about. My interest was sparked by the second paragraph on the last page of the WWF submission, which mentions the need for improvement in the rural development plan and the ways in which other countries have put some of the money into what might be argued are not purely farm-based projects. I was interested to read that in Germany and England funding is available for the renovation of rural infrastructure and that in Finland and Germany funding is available to stimulate local markets.

I know that the three witnesses have covered some of this ground, but can we explore it a little further? If it is not considered appropriate to move to the wider set of projects straight away, is there a timescale on the basis of which the three witnesses think that it would be reasonable to consider moving across to some of those projects? I assume that the WWF wants to move towards that situation fairly quickly.

The WWF Scotland submission talks about needing to ensure that the Scottish Executive's 10 per cent by 2007 target for modulation becomes a 20 per cent by 2005 target. Does Adam Harrison believe that the 20 per cent target is achievable within a year?

Adam Harrison: Yes, it is absolutely achievable. As I said, we have been able to go to 20 per cent since 1999, given that we have had the flexibility to introduce cross-compliance. The partnership agreement and the Deputy Minister for Environment and Rural Development's statements on CAP reform show that that is the direction in which we want to go. It is just a question of how fast we do so.

I do not believe that what we are offering farmers, let alone broader rural communities, is a package that will help them to adapt to the reforms and create for themselves a sustainable future. We might tell a farmer to farm for the market, but there is not much of a market, because the market that exists is being geared up for intensive, larger-scale, traditional farming. We should be investing in local marketing, value adding and selling through the internet, because those are the ways in which we will get a farmer in Harris doing something differently from a farmer in Fife—at the moment, they do similar things, which I do not think is the future. We are not investing enough in what we are trying to achieve at the moment with less favoured areas, the agri-environment and woodland grants. It is not an either/or situation; we have to increase investment in all those areas.

Jonathan Hall: I want to pick up on what Adam Harrison just said about where we want to go and how fast. I refer to the comment that I made in response to a previous question: if we go too fast, we will go off the road if we are not careful.

Roseanna Cunningham: That is if the roads are good enough to travel on in the first place.

Jonathan Hall: That is true enough—it also depends where the road leads, which is a moot point. We have to be careful that we do not go too fast and take bigger and bigger slices out of the single farm payment, which is in effect what we are talking about in relation to modulation. Given that there are contributions to a national envelope for the beef sector and a contribution of 3 per cent to the national reserve and that we have an

unknown factor of financial discipline—no one knows how big a slice that will represent—there is a danger, which the previous panel mentioned, that particular individuals will see their single farm payment or entitlement per hectare being whittled away quickly. The cost of receiving that single farm payment in terms of the cross-compliance component will have a disproportionate impact in different parts of Scotland—there will be different relative costs throughout the country. Therefore, there is a danger that some people will say, "I may as well cash in my single farm payment now", which they are entitled to do, and that they will fall out of the system altogether. There will be no cross-compliance for those individuals. They will be able to farm as hard as they like and try to cut costs as much as they can in order to respond to free-market signals. Once we lose those individuals, we will have no control in terms of policy levers to meet objectives.

Roseanna Cunningham: In the foreseeable future, do you see no point at which you could begin to consider the broader rural development projects as opposed to projects that are specifically farm based?

Jonathan Hall: I do not mean to suggest that. We are entering a brave new world. We need to retain land-based activity, so until we grow slowly the rural development funding in pillar 2—we know that there cannot be an immediate switch—we will have to go through a period during which individuals will be able to adjust, so that we can take them with us. Once we establish that and once individual businesses are in effect standing on their own two feet and the single farm payment is not being viewed as a crutch to assist them through an adjustment period, we will be able to use rural development funding for infrastructure developments and what the previous panel referred to as things beyond the farm gate.

There is a fundamental question about the whole European pillar 2 funding pot, which is under review by the Commission. It is incumbent on the United Kingdom and Scotland to fight for a greater share of that pot. Currently, we receive only 3.5 per cent of all rural development spending in Europe, which, given our population size and rural landscape, is not proportionate. Once such issues have been addressed, it is clear that there is a case for rolling out the rural development package to address all sorts of wider rural development issues that are not being addressed by the current Scottish rural development plan. However, until then—to use another cliché—we would shoot ourselves in the foot if we went too far too quickly.

11:30

Roseanna Cunningham: In your view, when is "then"? If we are talking about transitional

arrangements, at what point will farmers cease to view the single farm payment as simply part of their income and realise that it is disappearing?

Jonathan Hall: I think that they will realise that come 2005, when things will kick off. They will certainly realise it by 2007, because there will be reductions in the single farm payment. The Scottish Executive will have total modulation of at least 10 per cent by 2007 and there will probably be at least 3 per cent feeding a national reserve. The beef sector will certainly be hit by a contribution to a national envelope, and so on. The penny is dropping for an awful lot of producers that the single farm payment will not last for ever and that the adjustment process must therefore start now.

Adam Harrison: I have often put myself in the Treasury's place, which perhaps I should not do. If so much is being spent on agriculture in the total sector, it is difficult for people to say, "Let's give some more Treasury money to rural development" when we are not necessarily proving that the money that is being spent is being spent to deliver the things that the Treasury would expect public money to deliver.

I agree with Jonathan Hall that agricultural activity is important. However, is all agricultural activity equally important? My submission says that Fife is given 20 times as much support per hectare for agricultural activity as the Western Isles is given, but can one put one's hand on one's heart and say that agriculture in Fife is worth 20 times as much to the public purse in terms of environmental and social benefits? That might well be the case in terms of economic benefits, because such benefits are the way in which it has been decided where money will go in the past. There might be 20 times as much economic activity in Fife, but does that activity take place in things that the public purse should support? Does it buy local labour or machinery from the far east? Does it buy local inputs or feed that is imported by North American multinationals from Latin America? Is the economic activity in the sort of things that we want to invest in, with those sorts of patterns? We have to tackle not only what the money is spent on, but where it is spent.

John Thomson: I would like to add a couple of points, one of which harks back a little to the point about destination. I agree with Jonathan Hall that the future strategy for Scottish agriculture broadly describes a destination, but we do not have something that is quite comparable for rural development more generally. We certainly do not have that at the more regional and local scale and we ought to have gone through such a process before a lot more money was invested in the non-land-management parts of the rural development programme. As witnesses in the previous panel

said, such a process takes time and we need to invest time in that process. The matter is not about a single destination—a range of destinations fit within the broader national picture and we need to invest in developing such a vision with a wide range of stakeholders, as I have said.

One aspect of the current set-up that strikes me as very unsatisfactory and which certainly argues for moving more quickly in some respects is tradeability of single farm payments. Within a few years, as a result of tradeability, there could be a completely different geographical pattern of payments from what there is now and it seems to me that that will mess things up. In terms of public perception, it will further undermine the validity of the single farm payment as a payment for public goods, because it will make it look much more like a financial asset—in effect, the payment will be an annuity. That is an argument for moving more quickly, but it can be set against my argument that we need time to invest in being clearer about our destination.

Jonathan Hall: We could speculate all day long about the amount of trading in single farm payments that will occur, but I do not believe that there will be an awful lot of trading in an asset that will be of significantly declining value.

Maureen Macmillan: You mentioned that cross-compliance might be too onerous for some farmers, who might therefore decide to go for the free-market option. Bob Stubbs of HIE took a different view; he thought that some farmers and crofters in marginal areas might decide to throw in the towel. On the margins, will we be left with land that is no longer in agricultural use, and with the social and economic downside of that?

Jonathan Hall: I echo Bob Stubbs's comments on that. The cost of cross-compliance must be considered in relation to the single farm payment that an individual receives. Bob Stubbs drew some clear examples of the difference between the Lothians and the Highlands and Islands. Because single farm payments can be traded in the first couple of years of operation, there is a danger that people in particular areas at the margins might think, "The cost of keeping cattle in this part of the world is extortionate; there is no future in the sheep industry; I have got the single farm payment, which is an asset that will decline quite soon, so let me try to sell it."

In effect, such a person will drop out of the system—or, as you said, they will throw in the towel. That could bring about significant changes in land use in areas that have traditionally been grazed and in crofting areas in the north and west. We might see an expansion in forestry in some places. There are obvious constraints; one cannot grow trees wherever and whenever one wants to, partly because of the limitations of the Scottish

forestry grants scheme. There may well be changes in land use in specific areas, but that should not be too much of a problem, as long as those changes start to deliver public benefits, to create employment and to generate income. There are also amenity and environmental issues that go along with changes in land use.

Adam Harrison: I agree that a supreme irony is involved. The standards that we will set will ask those who are involved in agriculture in some peripheral and fragile but—in terms of the environment—valuable areas of Scotland to more or less maintain their current level of activity, whereas we will ask farmers in East Lothian, for example, to do a lot less than they do now to meet the environmental standards. We must address that issue; the standards must be flexible enough to be meaningful in different areas, and they must be applied in ways that are proportionate to the environmental impacts of agriculture in those areas. That brings us back to the fundamental question of redistribution: should public money be directed to allow farmers in the peripheral, high-nature-value areas to maintain their farming systems if we deem them to be essential to delivering that environment?

Maureen Macmillan: I presume that that question has to be answered quickly.

Adam Harrison: Certainly. On 1 January 2005, in the immediate aftermath of the reforms, landholders will have to make decisions about what to do that morning on their farms and crofts.

Jonathan Hall: On the issue of cross-compliance and the need for flexibility, I gave the Scottish Executive a knocking before for its economy of effort in relation to the consideration of area-based payments and so on. However, credit must be given to the Scottish Executive for working within a limited and restrictive framework that was set down by the Commission in the horizontal regulations on cross-compliance, which relate to the need to keep land in good agricultural and environmental condition—the GAEC policy. The current consultation exercise on that issue makes it plain that the Executive has tried to take as flexible an approach as possible to allow farmers to adapt the GAEC policy to their own circumstances. Quite rightly, the Executive has steered away from hard-and-fast pronouncements in relation to matters such as stocking densities, but has ensured that appropriate stocking and grazing regimes are the order of the day. As Adam Harrison said, one size should not fit all in this context.

Maureen Macmillan: Could the GAEC policy be drawn so that the farmers and crofters on the margins of the country would be able to embrace cross-compliance without too much difficulty?

Jonathan Hall: I like to think so. The last thing that we want to do is to carve in stone GAEC conditions for the receipt of single farm payments that, in effect, force people off the land. That is the last thing that the reforms are about. They are designed to enable people who receive the single farm payment—in Scotland, we hope that that would be as tier 1 of the land management contract—to keep their land in good agricultural and environmental condition. Thereafter, they should have access to adequately resourced measures through tier 2 and tier 3 of an LMC that should enable them to deliver above and beyond that.

John Thomson: I agree. The debate illustrates the fundamentally unsatisfactory character of a situation in which farmers depend on a single farm payment subject to cross-compliance as a means of delivering targeted public benefits. We must move towards much more tailored packages. I question how far that is possible within the present concept of the single farm payment. At the moment, I think that that can be achieved only through pillar 2.

The Convener: I have a final question that picks up on the point about regional and local packages and the need to have a much more regional focus and to involve local stakeholders such as land managers and local communities. Is community planning, which John Thomson mentioned earlier, the way to go in that regard? Jonathan Hall talked about using outcomes as opposed to objectives to ensure that you have got what you think you have paid for. What mechanisms will we need to develop in that regard? Do we link that into the discussions on pillar 2 at this point to ensure that people are capable of having those discussions?

John Thomson: There will have to be a planning process of some kind to define the public benefits that are required in any particular part of the country. To avoid running before you can walk, it might be best to start that process by thinking about the benefits that have traditionally been bought from pillar 2, such as the environmental benefits and the agri-environmental benefits. I agree with Adam Harrison that there is plenty of scope for buying more of those, so we need not move radically away from that position. However, we need to go beyond that circumstance to think of the wider benefits and the way in which the land-using economy contributes to the wider economy.

Once we start thinking about social benefits as well as economic and environmental benefits, it makes sense to try to link that with the broader community planning process, which is what should happen, over time, with any planning process that is carried out. Until now, community planning has had too narrow a focus on the delivery of certain

traditional local authority and public agency functions. The community planning process ought to be much more about the vision for the area's future and the various mechanisms and actors that are needed to deliver it. Obviously, that includes land management and land-management based activities.

11:45

Adam Harrison: I agree. If we have to find a horse to back, it strikes me that community planning is slightly ahead of the field. Of course, people have a lot of doubts about how community planning works on the ground, particularly about how communities and stakeholders are being involved. Those issues need to be addressed, and a first step would be for the Scottish Executive Environment and Rural Affairs Department to recognise that it should be involved in community planning as much as the other departments are. In some regions, that has been a problem.

SEERAD is considering various ways of introducing regional flexibility, for example by using local biodiversity action plans to give points under the rural stewardship scheme, or by using the indicative forest strategies as a mechanism to decide on the challenge-fund areas and the distribution of woodland grants. For some of the state-aided rural development measures, SEERAD has regional committees to oversee bids that are made up of a range of stakeholders. Those are the building blocks of a more consistent regional approach, but the approach should be extended to land management contracts and the whole CAP, not just to a subset of the pillar 2 measures.

The Convener: Should the approach be linked into the rural development plan?

Adam Harrison: Absolutely. That is a fantastic laboratory experiment to see how we might introduce regional flexibility much more consistently. It would be exciting to see negotiations about rural development happening throughout the country and to have different plans for different parts of the country.

Jonathan Hall: The LMC model that the Scottish Executive drew up in the summer of 2002 clearly built in a regional component; it involved regional differentiation and regional objectives rather than simply national Scottish or even UK or European objectives.

To make an overarching comment, the policy is still called the common agricultural policy, but as was hinted at earlier, we are now in an era of at least renationalisation of agriculture policy. Another terrible European word was subsidiarity. The new policy has an incredible and almost unprecedented degree of subsidiarity, which

means that it is a great opportunity not only for Scotland within the UK, but for the regions of Scotland.

The Convener: That is a good point on which to end. I thank the witnesses for being prepared to be interrogated for so long and for their written submissions, which were helpful.

We will now have a two-minute suspension to let the witnesses escape.

11:48

Meeting suspended.

11:48

On resuming—

Subordinate Legislation

**Pesticides (Maximum Residue Levels
in Crops, Food and Feeding Stuff)
(Scotland) Amendment Regulations 2004
(SSI 2004/104)**

**Pollution Prevention and Control
(Scotland) Amendment Regulations 2004
(SSI 2004/110)**

**Potatoes Originating in Egypt (Scotland)
Regulations 2004 (SSI 2004/111)**

**Countryside Premium Scheme (Scotland)
Amendment Regulations 2004
(SSI 2004/113)**

The Convener: The suspension was less than a minute—we are ahead of ourselves.

Agenda item 2 is subordinate legislation. We have four instruments to consider under the negative procedure. The Subordinate Legislation Committee has considered the regulations and has nothing to report on them. Do members have any comments?

Members: No.

The Convener: Are members therefore content to make no recommendation to Parliament on the regulations?

Members *indicated agreement.*

The Convener: Thank you for that overwhelming consensus.

I remind colleagues that at next Wednesday's meeting, which will start at 10.30, we will receive evidence on CAP reform from a panel of witnesses and evidence from the Deputy Minister for Environment and Rural Development on the implementation of the Water Environment and Water Services (Scotland) Act 2003.

Meeting closed at 11:49.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, 375 High Street, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Tuesday 6 April 2004

Members who want reprints of their speeches (within one month of the date of publication) may obtain request forms and further details from the Central Distribution Office, the Document Supply Centre or the Official Report.

PRICES AND SUBSCRIPTION RATES

DAILY EDITIONS

Single copies: £5

Meetings of the Parliament annual subscriptions: £350.00

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

WHAT'S HAPPENING IN THE SCOTTISH PARLIAMENT, compiled by the Scottish Parliament Information Centre, contains details of past and forthcoming business and of the work of committees and gives general information on legislation and other parliamentary activity.

Single copies: £3.75

Special issue price: £5

Annual subscriptions: £150.00

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75

Annual subscriptions: £150.00

Standing orders will be accepted at the Document Supply Centre.

Published in Edinburgh by The Stationery Office Limited and available from:

The Stationery Office Bookshop
71 Lothian Road
Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Stationery Office Bookshops at:
123 Kingsway, London WC2B 6PQ
Tel 020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
Tel 0121 236 9696 Fax 0121 236 9699
33 Wine Street, Bristol BS1 2BQ
Tel 01179 264306 Fax 01179 294515
9-21 Princess Street, Manchester M60 8AS
Tel 0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
Tel 028 9023 8451 Fax 028 9023 5401
The Stationery Office Oriel Bookshop,
18-19 High Street, Cardiff CF1 2BZ
Tel 029 2039 5548 Fax 029 2038 4347

The Stationery Office Scottish Parliament Documentation
Helpline may be able to assist with additional information
on publications of or about the Scottish Parliament,
their availability and cost:

Telephone orders and inquiries
0870 606 5566

Fax orders
0870 606 5588

The Scottish Parliament Shop
George IV Bridge
EH99 1SP
Telephone orders 0131 348 5412

RNID Typetalk calls welcome on
18001 0131 348 5412
Textphone 0845 270 0152

sp.info@scottish.parliament.uk

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers